

CIACO NID 81 [REDACTED]

November 10, 1981

SPECIAL ANALYSIS

POLAND: Financial Crisis

The Polish economy continues to deteriorate, and the country cannot meet its international financial obligations in the year ahead without massive foreign assistance. There is no chance of reversing the economic situation, moreover, until Warsaw puts its political house in order, a goal toward which little progress has been made. [REDACTED]

Poland will continue to look to the West for financial help in overcoming the legacy of the Gierek years, in achieving the economic stability needed to reach a balanced political framework, and in offsetting the possible loss of Soviet economic assistance. Foreign assistance can give the Poles more time to work out their problems, but it would not ensure economic recovery.

For all practical purposes, Poland is bankrupt. To complete the rescheduling of its debts for 1981 to Western banks and governments, Poland must still come up with \$500 million for interest payments to the banks by 10 December--unless this sum also is rescheduled or the deadline extended. [REDACTED]

The Poles also will need to reschedule \$9 billion in 1982. If governments and bankers are willing to reschedule on the same terms as this year, Poland would still have to cover a financial gap of \$4 billion. [REDACTED]

The USSR allowed Poland to run a \$2 billion trade deficit this year and provided more than \$1 billion of hard currency assistance. Moscow has made it clear that it will not be as generous next year. [REDACTED]

Except for grain credits, Western governments have been unwilling since earlier this year to guarantee large export credits, and bankers are opposed to making loans of new money. The Soviets have refused to borrow hard currency on Poland's behalf. [REDACTED]

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Bleak Prospects

Poland's international financial condition looks even more desperate when viewed in terms of the economy's ability to export in order to service its debts. This year's 15 percent decline in national income will be followed by a further drop in 1982 and no growth in industrial production. [REDACTED]

The Polish Government's need to balance trade with the West and most of its East European trading partners will contribute to continuing shortages of raw materials, spare parts, and consumer goods. Despite a good harvest this year, not enough food is making its way into the state marketing system and Poland must continue to import food. It would still need sizable agricultural imports next year even if the domestic food market situation improves. [REDACTED]

Obstruction by Solidarity

There is no relief in sight and the Polish economic predicament almost certainly will grow even more severe. Government stabilization policies have been delayed, ineffective, and often blocked by Solidarity resistance. The union insists it be consulted on policy measures and intends to protect interests which may conflict with national recovery. [REDACTED]

The regime has yet to complete the bills on economic reform or to negotiate them with Solidarity, and relations between the two continue to be governed by deep distrust. Until the workers can be convinced to go back to work and accept greater austerity, the economy cannot be turned around. [REDACTED]

Any type of reforms that might be agreed upon probably would be disruptive in the near term. Solidarity might seek reforms that would allow such a degree of worker control that they would be economically infeasible over the longer term. [REDACTED]

In the near term, Poland could declare a debt moratorium or be forced into a formal default. A moratorium would be preferable but would be difficult to organize on short notice. Formal default would have serious consequences:

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--Poland would be able to import even less from the West.

--It could have the spillover effect of reducing the access of other East European countries to Western credits, thereby disrupting East-West trade.

--The international banking system could be dealt a serious blow, and certain West European banks might require government assistance. [REDACTED]

Government Actions

The Polish Government is expected to apply for IMF membership today. In addition, its representatives are meeting with bankers now to discuss how to get around the \$500 million payment due 10 December. The Poles also will meet with 16 Western creditor-governments on 19 and 20 November in Paris to discuss the rescheduling of the payments for 1982. [REDACTED]

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